



# ECON244

## Labour Economics

S2 Day 2014

*Economics*

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## General Information

Unit convenor and teaching staff

Unit Convenor

Michael Dobbie

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E4A 416

Available on iLearn

Credit points

3

Prerequisites

ECON110 or ECON111

Corequisites

Co-badged status

Unit description

This is a unit in the economics of the labour market. It deals with some of the most fascinating and practical questions in economics, questions such as the following. How do firms use their remuneration systems to motivate their employees to work hard? When and why do employers and employees want a 'long-term relationship'? What are deferred compensation systems? What are internal labour markets and why do some firms run them? Why do some firms structure executive salaries to mimic the monetary payoff structure of a sporting tournament? Is investing in a university degree a good idea? Why do firms invest in training their employees? Who ultimately pays for this investment; the employer or the employee? How can asymmetric information lead to discrimination in the labour market? How would we measure such discrimination? Has the demand for labour in recent years resulted in job polarisation; that is, in the creation 'lovely' jobs and 'lousy' jobs? This unit explores these issues and much more.

## Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at <https://www.mq.edu.au/study/calendar-of-dates>

## Learning Outcomes

On successful completion of this unit, you will be able to:

Demonstrate a solid understanding of labour market theory.

Recognize how labour market theory aids decision-making by individuals, business and government.

Undertake any future studies in economics, and in labour economics in particular, with increased confidence.

Communicate effectively on labour market issues.

Apply labour market theory to solve problems.

Recognise how economic theory can explain observed human behaviour.

## Assessment Tasks

Name	Weighting	Due
<u>Tutorial Participation</u>	15%	Ongoing
<u>Within Session Class Test</u>	5%	Week 5
<u>Essay</u>	20%	Week 10
<u>Final Examination</u>	60%	University Examination Period

### Tutorial Participation

Due: **Ongoing**

Weighting: **15%**

Students are expected to actively participate in tutorial discussion. To facilitate this all students are given 15 marks at the outset of the session. To keep these 15 marks you must do the following things. Firstly, attend all tutorials. Starting with tutorial one, each tutorial missed will result in the loss of one and a half marks. Secondly, in addition to attendance at tutorials students will be rewarded for active participation. Each week students will be randomly selected to help answer preset tutorial questions. Over the course of the tutorial program each student will be asked to help answer a question on three occasions. Each time a student fails to provide a satisfactory answer five marks will be deducted from the 15. If you are called upon to answer a question and are not present, you will lose 5 marks. In sum if you attend all tutorials and provide three satisfactory answers you keep all 15 marks. The tutorial questions will be made available on iLearn the week before they are to be discussed in the tutorial. If documented illness or unavoidable disruption results in missed tutorials students may apply for Special Consideration.

On successful completion you will be able to:

- Demonstrate a solid understanding of labour market theory.
- Undertake any future studies in economics, and in labour economics in particular, with increased confidence.

- Communicate effectively on labour market issues.
- Apply labour market theory to solve problems.

## Within Session Class Test

Due: **Week 5**

Weighting: **5%**

This multiple choice class test will be held in week 5, on Wednesday September 3, during your normal tutorial time and at your normal tutorial location. The test involves 10 multiple choice questions that are drawn from all material covered in the unit up to and including week 4. Students are awarded one mark for each correct answer and zero for each incorrect answer. If you miss this class test due to documented illness or unavoidable disruption you may apply for Special Consideration. If you find yourself in this position contact Michael Dobbie immediately. If special consideration is granted you will be required to sit a supplementary class test. This supplementary class test will be held on Wednesday September 17.

On successful completion you will be able to:

- Demonstrate a solid understanding of labour market theory.
- Recognize how labour market theory aids decision-making by individuals, business and government.
- Recognise how economic theory can explain observed human behaviour.

## Essay

Due: **Week 10**

Weighting: **20%**

Each student is required to submit a 1500 word essay on Tuesday October 21 2014 by 2pm. The essay is submitted via BESS. A separate document with the essay question and instructions will be available on iLearn by week 5. No extensions will be granted. Late essays will be accepted up to 72 hours after the submission deadline. There will be a deduction of 20% of the total available marks made from the total awarded for each 24 hour period or part thereof that the submission is late (for example 25 hours late will involve a 40% penalty). This penalty does not apply for cases in which an application for special consideration is made and approved. If you submit your essay late, with or without special consideration approval, you must submit it to the staff, over the counter, at BESS. The BESS staff will date stamp your essay and ensure it is passed onto the unit coordinator.

On successful completion you will be able to:

- Demonstrate a solid understanding of labour market theory.
- Recognize how labour market theory aids decision-making by individuals, business and government.
- Undertake any future studies in economics, and in labour economics in particular, with

increased confidence.

- Communicate effectively on labour market issues.
- Apply labour market theory to solve problems.
- Recognise how economic theory can explain observed human behaviour.

## Final Examination

Due: **University Examination Period**

Weighting: **60%**

An end of unit two hour examination held during the end of year examination period. The exam will cover all aspects of the unit material. It will involve answering three essay type questions that will give you the chance to demonstrate your knowledge of the economic concepts and labour market applications covered during the session. If you cannot make the final exam due to documented illness or unavoidable disruption you may apply for Special Consideration and may be granted a Supplementary Exam that will be held in late December.

On successful completion you will be able to:

- Demonstrate a solid understanding of labour market theory.
- Recognize how labour market theory aids decision-making by individuals, business and government.
- Communicate effectively on labour market issues.
- Apply labour market theory to solve problems.
- Recognise how economic theory can explain observed human behaviour.

## Delivery and Resources

### Classes

There will be one two-hour lecture each week, beginning in week one. There will be a one-hour tutorial each week, beginning in week two.

The timetable for classes can be found on the university web site at:

<http://www.timetables.mq.edu.au>

## Required and Recommended Texts and/or Materials

### Recommended Text

The unit is based on the following textbook:

Kaufman, Bruce & Hotchkiss, Julie (2006) (7th ed) *The Economics of Labor Markets*, Mason (OH): South-Western (Thomson Learning).

Students **DO NOT** need to purchase this textbook. The sections from the textbook that are used in the unit are available to students via the econ244 e-reserve folder.

## Additional References

The following books are sometimes referred to in the lectures and tutorials. Many of these books also offer an alternative presentation of the material covered in the unit. Students may wish to consult these books for assistance in understanding the lecture material.

Norris, K., Kelly, R. and Giles, M. (2005) (6th ed) *The Economics of Australian Labour Markets*. Pearson, Australia.

Whitfield, K. & Ross, R. (1996) (2nd ed), *The Australian Labour Market*. Harper Educational, Australia.

Ehrenberg, R.G. & Smith, R.S. (1994) (5th ed). *Modern Labor Economics Theory and Policy*. HarperCollins College Publishers, New York.

Elliott, R. (1991), *Labor Economics: A Comparative Text*. McGraw Hill, London.

Lazear, E. (1998) *Personnel Economics for Managers*. Wiley, New York.

McConnell, C., Brue, S.L. & Macpherson, D. (1999) *Contemporary Labor Economics*. McGraw Hill, New York.

These books are available in the Reserve section of the library.

## Technology Used and Required

### Unit Web Page

The web page for this unit can be accessed via [ilearn.mq.edu.au](https://ilearn.mq.edu.au). You should check this web page regularly. The lecture slides for each weeks lecture will be posted on the web page, before the lecture. You will find it useful to download the slides prior to the lecture, and bring to them to the lecture. We also use the web page to post important notices from time to time.

## Teaching and Learning Strategy

This unit is taught as a mix of tutorials and lectures. The lectures are designed to provide the tools which can then be applied in tutorials.

- **Lectures – (2 hours each teaching week)**
- Lectures are intended to provide an overview of the key concepts explored in the unit. Students are expected to attend all lectures and the read the relevant textbook chapters before each lecture.
- **Tutorials – (1 hour each teaching week beginning in Week 2)**
- Tutorials constitute a critical learning experience of this unit and students must attend them, prepare for them and actively participate in them. Your tutor will help you to understand the tutorial material and can also give guidance on how to approach problems.
- **Independent learning**
- Econ244 relies heavily on independent learning where students read the relevant

chapters and papers, revise lecture notes and contribute to tutorial discussion.

## Unit Schedule

Weeks	Lecture Topics & Key Dates
1	<p><b>LECTURE 1:</b></p> <p><b>INTRODUCTION TO THE STUDY OF LABOUR MARKETS</b></p> <p>Topics covered include; what is modern labour economics, schools of thought in labour economics, is labour fundamentally different from other commodities, labour market processes and labour market outcomes.</p> <p><b>Readings:</b></p> <p>Kaufman &amp; Hotchkiss (hereafter K &amp; H) Ch.1</p> <p>Garvey, G. T. (1994) "Why labour is not different?" <i>Agenda</i>, 1(1), pp 5-12</p>
2 & 3	<p><b>Tutorials begin in week 2 (relax, your tutor will lead the first tutorial)</b></p> <p><b>LECTURES 2 &amp; 3:</b></p> <p><b>LABOUR SUPPLY IN THE SHORT-RUN</b></p> <p>Topics covered include; the neoclassical theory of short-run labour supply, applications and criticisms of the theory and a look at some evidence on the Australian labour supply.</p> <p><b>Readings:</b></p> <p>K&amp;H Ch.2 &amp; 3</p> <p>Norris et al Ch 2, optional reading</p>
4 & 5	<p><b>WITHIN SESSION MULTIPLE CHOICE CLASS TEST HELD IN NORMAL TUTORIAL TIME WEEK 5</b></p> <p><b>LECTURES 4 &amp; 5:</b></p> <p><b>LABOUR DEMAND: SHORT RUN &amp; LONG RUN</b></p> <p>This topic presents and critically evaluates the neoclassical theory of labour demand in the short-run and long-run. Modified models of labour demand are also considered. The lecture also examines the hypothesis that labour demand has become polarised, with growth occurring mainly at the top and bottom of the skill distribution.</p> <p><b>Readings:</b></p> <p>K&amp;H Ch.4 &amp; 5</p> <p>Goos, M, Manning, A, and Salomons, A. (2009), 'Job Polarisation in Europe', <i>American Economic Review: Papers and Proceedings</i>, 99(2), pp58-63.</p> <p>Norris et al Ch 3 optional reading</p>

6 & 7	<p><b>LECTURES 6 &amp; 7</b></p> <p><b>HUMAN CAPITAL THEORY AND THE QUALITATIVE DIMENSION OF LABOUR SUPPLY</b></p> <p>This topic looks at the human capital account of investment in education and on-the-job training. It also explores the education/earnings relationship from both an empirical and theoretical perspective.</p> <p><b>Readings:</b></p> <p>K&amp;H Ch.7</p> <p>Norris et al Ch 4 optional reading</p>
	<p><b>Mid session break</b></p>
8	<p><b>LECTURE 8:</b></p> <p><b>THE DETERMINATION OF WAGES UNDER PERFECT COMPETITION. THE ECONOMICS OF THE MINIMUM WAGE.</b></p> <p>Examination will be made of the wage determination under competition. The rationale and economic consequences of government determined minimum wages will also be explored.</p> <p>References:</p> <p>K &amp; H Ch 6</p> <p>Dowrick, S. and Quiggin, J. (2003), A survey of the literature on minimum wages, February 2003 [<a href="http://ecocomm.anu.edu.au/people/info/dowrick/Minimum-Wage.pdf">http://ecocomm.anu.edu.au/people/info/dowrick/Minimum-Wage.pdf</a>]</p>



9 & 10	<p><b>Compulsory essay due week 10, Tuesday October 21, 2pm, via econ244 box at BESS</b></p> <p><b>LECTURES 9 &amp; 10:</b></p> <p><b>EMPLOYEE MOTIVATION AND COMPENSATION. COMPENSATION IN EXECUTIVE LABOUR MARKETS (THE THEORY OF TOURNAMENTS)</b></p> <p>This topic looks at issues surrounding the control of worker effort via payment schemes and other mechanisms. More specifically, piece rates versus time rates, and the theory of deferred-payment schemes. These lectures also examine compensation in executive labour markets via Tournament Theory. Empirical evidence in relation to all these issues is discussed.</p> <p><b>Readings: ** these references, and the detailed lecture slides, are the references you need to read for this topic. The others are purely optional and are included for the benefit of students who would like to go more deeply into this topic.</b></p> <p>**K&amp;H Ch 10 pp505-511, pp530-534, pp552-555. Ch 7 pp367-368.</p> <p>Norris et al pp 102-103.</p> <p>Paul Milgrom &amp; John Roberts (1992) <i>Economics, Organization and Management</i>. Englewood Cliffs: Prentice Hall. Ch.12 &amp;13.</p> <p>Ehrenberg &amp; Smith Ch.11</p> <p>Lazear, E. P. (1998) <i>Personnel Economics for Managers</i>. New York: Wiley. Chs 5, 9 &amp; 11</p> <p>Lazear, E. P (1999) "Personnel Economics: Past Lessons and Future Directions", <i>Journal of Labor Economics</i>, 17(2), 199-236.</p> <p>Lazear, E. P (2000a) "The Future of Personnel Economics", <i>Economic Journal</i>, 110(Nov.), F611-639.</p> <p>Lazear, E. P (2000b) "Performance Pay and Productivity", <i>American Economic Review</i>, 90(5),1346-61.</p> <p>Chang, C &amp; Miller, P (1996) "Incentive Effects in the Australian Labour Market: An Application of the Lazear and Moore Model", <i>Australian Economic Papers</i>, (June), 114-127.</p> <p>Lazear, E. P. &amp; Moore, R. L. (1984) "Incentives, Productivity and Labor Contracts", <i>Quarterly Journal of Economics</i>, (May), 275-296.</p> <p>Hutchens, R. (1987) "A Test of Lazear's Theory of Delayed Payment Contracts", <i>Journal of Labor Economics</i>, 5(4, part2), S153-S170.</p>
11	<p><b>LECTURE 11:</b></p> <p><b>OCCUPATIONAL WAGE DIFFERENTIALS: THEORY, APPLICATIONS AND EVIDENCE</b></p> <p>The classical and hedonic theories of compensating wage differentials will be presented and assessed. The hedonic theory will be applied to an examination of issues such as occupational health and safety, the growth of fringe benefits and the work/family-life balance debate. The lecture will also examine and appraise the empirical evidence relating to compensating wage differentials.</p> <p>References:</p> <p>K &amp; H Ch 8</p>

12	<p><b>LECTURE 12:</b></p> <p><b>INTERNAL LABOUR MARKETS AND JOB STABILITY</b></p> <p>This lecture examines the theory of internal labour markets. The origin of this theory by the institutional school in the USA will be briefly examined. The theory will also be used to reflect upon the 'changing nature of the employment relationship' debate that has been occurring in recent years.</p> <p>Readings:</p> <p>K &amp; H Ch 6 pp295-300</p> <p>Dobbie and MacMillan (2010) 'Internal Labour Markets in Australia: Evidence from the Survey of Education and Training', <i>Australian Journal of Labour Economics</i> 13(2):137-154</p> <p>Norris et al Ch 5, optional reading</p>
13	<p><b>LECTURE: 13</b></p> <p><b>DISCRIMINATION IN THE LABOUR MARKET</b></p> <p>This lecture examines the causes and consequences of discrimination in the labour market. The measurement of discrimination in wages is outlined, as are recent trends in gender based wage discrimination.</p> <p><b>Readings:</b></p> <p>K &amp; H Ch.9</p> <p>Norris et al Ch 7, optional reading</p> <p>Smith, S. (1994), <i>Labour Economics</i>, Routledge, Chapter 5.</p>

## Learning and Teaching Activities

### Lectures (2 hours per week)

Lectures are intended to provide an overview of the key concepts explored in the unit.

### Tutorials (1 hour per week)

Tutorials constitute a critical learning experience in this unit. Students must prepare for them, attend them and actively participate in them.

### Independent learning

Econ244 relies heavily on independent learning where students read the relevant chapters and papers, revise lecture notes and prepare to contribute to tutorial discussion.

## Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central](#). Students should be aware of the following policies in particular with regard to Learning and Teaching:

Academic Honesty Policy [http://mq.edu.au/policy/docs/academic\\_honesty/policy.html](http://mq.edu.au/policy/docs/academic_honesty/policy.html)

Assessment Policy <http://mq.edu.au/policy/docs/assessment/policy.html>

Grading Policy <http://mq.edu.au/policy/docs/grading/policy.html>

Grade Appeal Policy <http://mq.edu.au/policy/docs/gradeappeal/policy.html>

Grievance Management Policy [http://mq.edu.au/policy/docs/grievance\\_management/policy.html](http://mq.edu.au/policy/docs/grievance_management/policy.html)

Disruption to Studies Policy [http://www.mq.edu.au/policy/docs/disruption\\_studies/policy.html](http://www.mq.edu.au/policy/docs/disruption_studies/policy.html) *The Disruption to Studies Policy is effective from March 3 2014 and replaces the Special Consideration Policy.*

In addition, a number of other policies can be found in the [Learning and Teaching Category](#) of Policy Central.

## Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: [https://students.mq.edu.au/support/student\\_conduct/](https://students.mq.edu.au/support/student_conduct/)

## Academic Honesty

The nature of scholarly endeavour, dependent as it is on the work of others, binds all members of the University community to abide by the principles of academic honesty. Its fundamental principle is that all staff and students act with integrity in the creation, development, application and use of ideas and information. This means that:

- all academic work claimed as original is the work of the author making the claim
- all academic collaborations are acknowledged
- academic work is not falsified in any way
- when the ideas of others are used, these ideas are acknowledged appropriately.

Further information on the academic honesty can be found in the Macquarie University Academic Honesty Policy at [http://www.mq.edu.au/policy/docs/academic\\_honesty/policy.html](http://www.mq.edu.au/policy/docs/academic_honesty/policy.html)

## Grades

Macquarie University uses the following grades in coursework units of study:

- HD - High Distinction
- D - Distinction
- CR - Credit
- P - Pass
- F - Fail

Grade descriptors and other information concerning grading are contained in the Macquarie

University Grading Policy which is available at:

<http://www.mq.edu.au/policy/docs/grading/policy.html>

## Grading Appeals and Final Examination Script Viewing

If, at the conclusion of the unit, you have performed below expectations, and are considering lodging an appeal of grade and/or viewing your final exam script please refer to the following website which provides information about these processes and the cut off dates in the first instance. Please read the instructions provided concerning what constitutes a valid grounds for appeal before appealing your grade.

[http://www.businessandeconomics.mq.edu.au/new\\_and\\_current\\_students/undergraduate\\_current\\_students/how\\_do\\_i/grade\\_appeals/](http://www.businessandeconomics.mq.edu.au/new_and_current_students/undergraduate_current_students/how_do_i/grade_appeals/)

## Special Consideration Policy

The University is committed to equity and fairness in all aspects of its learning and teaching. In stating this commitment, the University recognises that there may be circumstances where a student is prevented by unavoidable disruption from performing in accordance with their ability. A special consideration policy exists to support students who experience serious and unavoidable disruption such that they do not reach their usual demonstrated performance level. The policy is available at:

[http://www.mq.edu.au/policy/docs/special\\_consideration/policy.html](http://www.mq.edu.au/policy/docs/special_consideration/policy.html)

## Student Support

Macquarie University provides a range of support services for students. For details, visit <http://students.mq.edu.au/support/>

## Learning Skills

Learning Skills ([mq.edu.au/learningskills](http://mq.edu.au/learningskills)) provides academic writing resources and study strategies to improve your marks and take control of your study.

- [Workshops](#)
- [StudyWise](#)
- [Academic Integrity Module for Students](#)
- [Ask a Learning Adviser](#)

## Student Services and Support

Students with a disability are encouraged to contact the [Disability Service](#) who can provide appropriate help with any issues that arise during their studies.

## Student Enquiries

For all student enquiries, visit Student Connect at [ask.mq.edu.au](http://ask.mq.edu.au)

## IT Help

For help with University computer systems and technology, visit <http://informatics.mq.edu.au/help/>.

When using the University's IT, you must adhere to the [Acceptable Use Policy](#). The policy applies to all who connect to the MQ network including students.

## Graduate Capabilities

### Discipline Specific Knowledge and Skills

Our graduates will take with them the intellectual development, depth and breadth of knowledge, scholarly understanding, and specific subject content in their chosen fields to make them competent and confident in their subject or profession. They will be able to demonstrate, where relevant, professional technical competence and meet professional standards. They will be able to articulate the structure of knowledge of their discipline, be able to adapt discipline-specific knowledge to novel situations, and be able to contribute from their discipline to inter-disciplinary solutions to problems.

This graduate capability is supported by:

#### Learning outcomes

- Demonstrate a solid understanding of labour market theory.
- Undertake any future studies in economics, and in labour economics in particular, with increased confidence.
- Recognise how economic theory can explain observed human behaviour.

#### Assessment tasks

- Tutorial Participation
- Within Session Class Test
- Essay
- Final Examination

### Critical, Analytical and Integrative Thinking

We want our graduates to be capable of reasoning, questioning and analysing, and to integrate and synthesise learning and knowledge from a range of sources and environments; to be able to critique constraints, assumptions and limitations; to be able to think independently and systemically in relation to scholarly activity, in the workplace, and in the world. We want them to have a level of scientific and information technology literacy.

This graduate capability is supported by:

#### Learning outcome

- Recognize how labour market theory aids decision-making by individuals, business and

government.

## **Assessment tasks**

- Within Session Class Test
- Essay
- Final Examination

## **Problem Solving and Research Capability**

Our graduates should be capable of researching; of analysing, and interpreting and assessing data and information in various forms; of drawing connections across fields of knowledge; and they should be able to relate their knowledge to complex situations at work or in the world, in order to diagnose and solve problems. We want them to have the confidence to take the initiative in doing so, within an awareness of their own limitations.

This graduate capability is supported by:

## **Learning outcomes**

- Recognize how labour market theory aids decision-making by individuals, business and government.
- Apply labour market theory to solve problems.

## **Assessment tasks**

- Tutorial Participation
- Within Session Class Test
- Essay
- Final Examination

## **Effective Communication**

We want to develop in our students the ability to communicate and convey their views in forms effective with different audiences. We want our graduates to take with them the capability to read, listen, question, gather and evaluate information resources in a variety of formats, assess, write clearly, speak effectively, and to use visual communication and communication technologies as appropriate.

This graduate capability is supported by:

## **Learning outcome**

- Communicate effectively on labour market issues.

## **Assessment tasks**

- Tutorial Participation
- Essay

- Final Examination